



Missouri Department of Elementary and Secondary Education

— Making a positive difference through education and service —

September 19, 2003

TO: School District Administrators

FROM: Gerri Ogle, Associate Commissioner, Administrative and Financial Services
Denise Pierce, Director, School Finance
Tom Quinn, Director, School Governance

RE: September Financial/Governance/Transportation Information

2003-04 Basic Formula and Line 14 Calculation – First "Live" Payment

The first payment based on the "live" calculation of the 2003-04 Basic Formula and Line 14 apportionment occurred this month, September 2003. ("Live" means **all** the formula factors have been updated and included in the Department's calculations programs.) The monthly payments for July and August were based on a percentage of the 2002-03 calculation. Any calculation the district may have made to determine its 2003-04 Basic Formula and Line 14 apportionment amounts would probably not have resembled the monthly payment amounts the district received before the calculation system went "live". An adjustment was made in the September payment so that the district will have received, with the September payment, approximately 3/12ths of the September calculation of the 2003-04 Basic Formula and Line 14 apportionments. Corrections for the 2002-03 apportionment were not made with the September 2003 payment, but are expected to be computed in October. **Therefore, neither the amount of the September payment nor the October payment will be the approximate payment amount the district should expect to receive in the remaining months of the 2003-04 year.**

Please review the September 2003 Basic Formula and Line 14 calculation sheet posted under Monthly Financial Reports on the School Finance web page to see the data used in the September calculation for your district. (Changes made after September 5, 2003 to 2002-03 Core Data attendance or calendars effecting payment EP, 2002-03 ASBR, or 2003-04 Core Data tax rates or estimated eligible pupils are not reflected in the September calculation.)

2003-04 Basic Formula Calculation Factors:

- a. The payment eligible pupil (EP) is the greater of the district's current year estimated EP (2003-04), the first preceding year actual EP (2002-03), or the second preceding year actual EP (2001-02). (The estimated EP field on Screen 2 should only have been completed if the district has estimated an increased enrollment in 2003-04 compared to 2001-02 and 2002-03, added full-day kindergarten, added or significantly increased summer school for the summer of 2003, or added remediation outside the regular school day in 2003-04 and wishes to be paid on the 2003-04 estimated EP.) The number of payment EP in the June 2003 payment was 880,959. The number of payment EP in the September 2003 payment is 883,695. The FY04 payment eligible pupil number is expected to increase by the June 2004 payment as districts review the attendance data throughout the year and submit revisions to estimates.

Remember, if the district does estimate, this number should be checked for reasonableness throughout the year. If the estimate is high, and causes the formula dollars the district receives to be greater than 105 percent of what the district should have received, the district will be charged a 6% interest penalty on the excess payment. This interest penalty is in addition to the negative correction for the overestimated EP and is applied in the following year when DESE recalculates the prior year apportionment.

- b. The GTB used to calculate Lines 1A & B and Line 14A is **\$147,022**. The GTB used to calculate Line 14B is **\$119,163**.
- c. The proration factor used on Lines 1A & 14A in the September 2003 calculation is 0.87907154 and the proration factor used on Lines 1B & 14B is 0.82907154. *These proration factors will likely decrease in future months and may be approximately .87 and .82, respectively, by June 2004.*
- d. The equalized operating levy used in Lines 1 and 2 is generally the sum of the 2003-04 adjusted Incidental and Teachers' Fund levies. The maximum levy is \$4.95 for Line 1 and \$4.70 for Line 2. The equalized operating levy on Line 1 in 2003-04 is the actual 2003-04 adjusted Incidental and Teachers' Fund levies unless the district is entitled to a calculated levy due to reassessment. (One exception is described in the next item.) Approximately 290 districts whose entitlement decreased due to a decrease in the tax rate resulting from reassessment have a calculated operating levy (add on) on Line 1. School Finance will continue to review this calculation and in the coming months some districts' calculated levy might change.
- e. For the 2003-04 year, the State Tax Commission certified all county sales ratios at 33.33 percent, except Madison County. Because this county's ratio was below 33.33 percent for two consecutive years, the tax rates of districts with property in Madison County have been equalized (reduced) for the purposes of the Basic Formula and Line 14. For all districts that do not have property in Madison County the equalized school purposes tax levy equals the adjusted school purposes tax levy.
- f. The assessed valuation used in the current year's (2003-04) formula calculation on Line 2 is the average of the December 31, 2001 and December 31, 2002 assessed valuations as certified to DESE on the Annual Report of the County Clerk to the State Board of Education.
- g. The amounts used in the formula calculation for Lines 3-9, deductions, come from the 2002-03 **Annual Secretary of the Board Report (ASBR)**, the **Annual Report of the County Clerk to the State Board of Education**, and the DESE payment files. Only the amounts indicated for school purposes (Incidental Fund AND Teacher's Fund) are used as deductions.
- h. The Line 14 calculation (Free and Reduced Lunch/At-Risk) uses the Free and Reduced Lunch eligible pupil count that the district certified to DESE as eligible for free or reduced lunch (not necessarily eating in the cafeteria) on the last Wednesday in January 2003 on Core Data Screen 15. The 2003-04 cost of Line 14 as calculated in September is approximately \$342 million. The number of free and reduced lunch eligible pupils in the 2003-04 calculation is 344,582.
- i. In order to determine whether your district is hold harmless, examine the district's monthly Basic Formula calculation sheet (the monthly printout coded SA128 in the upper left hand corner). If Line B, the "2003-04 DISTRICT APPORTIONMENT PER EP (INCLUDES LINE 14)" equals Line D, the "2003-04 PAYMENT AMOUNT PER EP (INCLUDES LINE 14 PER EP)", the district is not a hold harmless district. The September 2003 calculation yielded 78 hold harmless districts. There were 52 hold harmless districts in the June 2003 calculation.

Line 1 Calculated Tax Levy

As previously stated, some districts have a calculated levy used in Lines 1 and 14 of the 2003-04 Basic Formula and Line 14 Calculations. The calculated levy includes the add-on for previous years' plus a new add-on for the 2003 reassessment, if applicable. The final add-on for 2002-03 will be completed when DESE receives the final 2002 tax rate ceiling data from the State Auditor's Office (SAO). Also, at the time of the September Basic Formula calculation the SAO had not certified the 2003 tax rate ceiling for all districts. Changes may be necessary to a district's calculated levy in future months. Many factors are reviewed prior to determining if a district is entitled to a calculated levy. If your district did not receive a calculated levy in the September 2003 Basic Formula calculation, but the district believes it is entitled to one, please contact the School Finance Section at (573) 751-0357. Please be prepared to explain why your district should receive a calculated levy. A calculated levy calculation program is available at the following web site for your assistance: <http://dese.mo.gov/divadm/finance/tools/>. The formula being used for this calculation is:

2003-04 Line 1 Calculated Levy

The 2003-04 Basic Formula calculation includes a calculated Line 1 levy when applicable due to reassessment computed as follows:

$$\text{Tax Rate Reduction due to reassessment}^* \times [1 - (\text{average district AV of first and second previous year} / \text{current year payment EP} \div \text{GTB of current payment year}) \times \text{income factor not to exceed 1.00}] = \text{amount to add to actual adjusted Incidental + Teachers Funds tax rate}$$

*This reduction will be the lesser of the tax rate ceiling reduction or the reduction in the sum of the Incidental, Teachers, and Capital Projects Funds tax rates. If a district votes an increase in a year of reassessment, the tax rate ceiling reduction will be used to compute the adjustment. Adjustments may be necessary in future months if such a voted increased occurred.

2003-04 Proposition C Sales Tax Payment (1st Live Payment)

The Proposition C Sales Tax payment for September 2003 was updated to use actual 2002-03 eligible pupil (EP) data. The September payment was adjusted (increased or decreased) so the year-to-date amount was correct based on the district's prior year (2002-03) actual EP and total Proposition C dollars through September.

The 2003-04 budget approved by the House and Senate reflects projected Proposition C revenue at \$693,947,458. This is a 6% increase over the actual 2002-03 amount. The 2002-03 Proposition C revenue was 1.7% below the same year-to-date revenue for 2001-02. The 2003-04 revenue projection made several months ago may no longer be realistic. The following table provides estimated 2003-04 and actual prior year amounts.

	<u>Estimated or Actual Revenue</u>	<u>Estimated or Actual EP</u>	<u>Amount per EP</u>
2003-04 Budget Estimate	\$693,947,458	875,000	\$793.08
2003-04 No Revenue Growth Estimate	\$653,890,774	875,000	\$747.30
2002-03 Actual Revenue	\$653,890,774	862,796	\$757.87
2001-02 Actual Revenue	\$665,079,037	853,392	\$779.33

A conservative projection for 2003-04 appears to be the 2002-03 actual revenue divided by the projected 2002-03 eligible pupils (EP) yielding \$747.30 per EP. Further reduction in revenue will decrease the amount per EP. Be as conservative or optimistic as you choose.

2003-04 Fair Share Payment (1st Live Payment)

The Fair Share payment for September 2003 was updated to use actual 2002-03 average daily attendance (ADA) data. The September payment was adjusted (increased or decreased) so the year-to-date amount was correct based on the district's prior year (2002-03) actual ADA and total Fair Share dollars through September.

The 2003-04 budget approved by the House and Senate reflects projected Fair Share revenue at \$23,225,250. This is a projected increase of 1% over the actual 2002-03 amount. The 2002-03 Fair Share revenue was 0.28% above the same year-to-date revenue for 2001-02. The 2003-04 revenue projection made several months ago may no longer be realistic. The following table provides estimated 2003-04 and actual prior year amounts.

	<u>Estimated or Actual Revenue</u>	<u>Estimated or Actual ADA</u>	<u>Amount per ADA</u>
2003-04 Budget Estimate	\$23,225,250	855,000	\$27.16
2003-04 No Revenue Growth Estimate	\$22,986,529	855,000	\$26.88
2002-03 Actual Revenue	\$22,986,529	842,129	\$27.26
2001-02 Actual Revenue	\$22,921,396	836,424	\$27.40

A conservative projection for 2003-04 appears to be the 2002-03 actual revenue divided by the projected 2002-03 average daily attendance (ADA) yielding \$26.88 per ADA. Further reduction in revenue will decrease the amount per ADA. Be as conservative or optimistic as you choose.

2003-04 District Revenue Projections

Now that the district has current 2003-04 Basic Formula and Line 14 (At-Risk) Revenue Projections and the final 2003-04 tax levy, the district should review its revenue projections in each area and consider appropriate budget adjustments. Remember, a district may not receive the amount indicated on Line H, Basic Formula Apportionment because of prior year adjustments. In revising budget amounts for Basic Formula and Line 14, the district will also need to consider the positive or negative correction from the prior year, which will be determined in October. The prior year correction will impact the actual revenue the district should expect to receive in 2003-04. Periodic revenue (and expenditure) reviews are advisable.

Free Textbook Payment

The 2003-04 Free Textbook Payment will be transferred by ACH on September 30, 2003. Information about this payment will be posted on the School Finance web page upon completion of the calculation.

The 2003-04 budget approved by the House and Senate reflects projected Free Textbook revenue at \$89,650,000. This is a projected increase of 7.95% over the 2002-03 amount. The 2002-03 Free Textbook total revenue of \$83,046,981 was approximately a 12% increase over 2001-02. The 2003-04 actual revenue is now known and is \$66,481,621.

	<u>Estimated or Actual Revenue</u>	<u>Estimated or Actual Membership</u>	<u>Amount per Membership</u>
2003-04 Budget Estimate	\$89,650,000	890,000 Est.	\$100.73
2003-04 No Revenue Growth Estimate	\$83,046,981	890,000 Est.	\$ 93.31
2003-04 Actual Revenue to Distribute	\$66,481,621	890,000 Est.	\$ 74.70
2002-03 Actual Revenue	\$83,046,981	883,589 Act.	\$ 93.98
2001-02 Actual Revenue	\$71,753,266	884,745 Act.	\$ 81.10

The revised projection is the 2003-04 actual revenue of \$66,481,621 divided by the projected September 2002 membership of 890,000 yielding **\$74.70** per membership. The FY04 actual revenue is significantly lower than the revenue available in FY03. The cause of the decrease is due to increased usage of tax credits by insurance companies and more refunds made to insurance companies for overpayments.

September 2002 Membership Report to the Counties

Prior year September membership data (September 2002) are used by the county to calculate the 2003-04 distribution of Fines, Escheats, etc., as well as for the apportionment of State Assessed Railroad and Utilities revenue. A September membership report, which indicates membership data broken down by county as submitted to DESE by each district, will be transmitted to each county by September 30, 2003.

The September membership report to the county is only as accurate as the data reported by the district to DESE. The School Finance staff has compared the 2002 data by county to the 2001 data by county and communicated with the district if it appeared the district might have reversed the data. The district has had a year to make changes to the September 2002 membership data so that the data are accurate for 2003-04 payments. However, if the county or district identifies other changes to the September 2002 membership, the district must make changes to Core Data Screen 16 and submit appropriate screen prints to School Finance. (Any changes made to the September 2002 membership after September 13, 2003, will not be reflected in the report sent to the counties.)

Estimated Eligible Pupils

Section 163.036, RSMo, permits districts to be paid in the Basic Formula on the greater of the current year estimated eligible pupils (EP), the first preceding year actual EP, or the second preceding year actual EP. For example, during the 2003-04 year, districts will be paid on the greater of the actual 2001-02 EP, the actual 2002-03 EP, or the estimated 2003-04 EP. In addition to allowing a district decreasing in eligible pupils to adjust to the decrease more gradually, using the higher of the three EP figures allows districts gaining in eligible pupils due to increases in enrollment, increases in attendance rate, and/or increases in the immediate preceding summer school attendance to receive funds in 2003-04 to assist the districts in providing services to their students. The DESE Basic Formula computer program compares the three numbers and uses the highest. No special request by the district is needed for DESE to use the highest number.

The estimated EP for 2003-04 may be entered on the August Core Data WEB Screen 2 in the Estimated Eligible Pupil field. This field should only be completed if the district expects the 2003-04 EP to be greater than the actual 2001-02 or 2002-03 EP. Contact School Finance staff if you have questions about estimating EP.

September 2003 Membership Count

The last Wednesday in September (September 24, 2003) is the membership count day and the enrollment count day. On Screen 16 of the 2003-04 October Core Data Cycle, report the September 24, 2003, enrollment data by male/female in the appropriate categories and report the September 24, 2003 membership data by county. The Core Data Collection System Manual provides the definitions for September enrollment and membership. Please enter and save data on the October cycle screens by October 15, 2003.

Reminders regarding reporting of enrollment and membership for students attending districts outside their district of residence:

- 1) District paid tuition – When the district of residence pays another district full tuition, the district of residence will report the student in membership but not in enrollment. Such students are known as Resident II students to the district of residence. The district receiving the tuition and educating the student will report the student in non-resident enrollment but will not include the student in membership. The district educating the student must provide attendance and membership data to the district of residence.
- 2) Parent paid tuition – When a parent pays tuition for a student to attend another district, the district of residence will not report the student in enrollment or membership. The district receiving the tuition from the parent and educating the student will report the student in non-resident enrollment but will not include the student in membership.
- 3) Local effort – When a district pays local effort only (as opposed to full tuition) to another district for a student attending that district, the district paying the local effort will not report the student in enrollment or membership. The district receiving the local effort payment and educating the student reports the student in resident enrollment and in membership.

Audit Reports

The 2001-02 and 2002-03 audit reports are due by October 31, 2003. However, if the reports will not be submitted by October 31, 2003, the district may make a written request to the School Finance Section for an extension. A sixty-day extension will be granted to districts requesting it. State law does not allow an extension beyond sixty days. If the audit report is not received by the October 31 deadline and an extension has not been requested, further state aid shall be withheld until the audit report has been received by DESE. Likewise, if an extension is granted and the audit report is not postmarked by December 31, 2003, further state aid shall be withheld until the audit report has been received by DESE. The school district is responsible for sending School Finance a copy of the audit report, accompanying management letter (if one is issued by the independent auditor), and a copy of the board minutes indicating approval of the audit report.

Since many districts will be receiving and reviewing their 2003 audit reports in the near future, School Finance encourages all districts to ensure the ending debt balances in the current year audit report (on the financial statements and/or in the Notes to the Financial Statements) agree to the 6/30/03 ASBR balances in Part IV, Long and Short Term Debt. It is also advisable to ensure the Notes to the Financial Statements agree to the debt reported on the financial statements in the audit report. Prior year reviews of these data have noted instances where the data on the financial statements in the audit reports are different than the data in the Notes section and/or on the district's ASBR. Any discrepancies in the 2003 audit report data should be resolved with the district's independent auditor. If changes are necessary to the ASBR, please revise and re-submit the ASBR as soon as possible.

Districts should also review the Schedule of Selected Statistics and ensure the data reported on it are accurate. School Finance will perform comparisons between various figures on the Schedule of Selected Statistics with those reported by the district on the ASBR and in Core Data and will send audit comparison letters to districts where differences fall outside of a set tolerance range. The figures included in the data comparisons are the student data counts, the transportation data, the at-risk expenditures, and the PDC expenditures. Verification of the data prior to submission of the audit report will minimize the number of audit comparison letters sent later in the year and will ensure more accurate basic formula and transportation payments to the districts.

Minimum Salary Requirements

Section 163.172.1, RSMo, states:

“In school year 1994-95 and thereafter, the minimum teacher’s salary shall be eighteen thousand dollars. Beginning in the school year 1996-97, for any full-time teacher with a master’s degree and at least ten years teaching experience in a public school or combination of public schools, the minimum salary shall be twenty-four thousand dollars.”

All teachers are to receive at least their FTE proration of the applicable state minimum salary. Teachers include study hall teachers, in-school suspension teachers, and all others for whom the students’ hours are included in the average daily attendance calculation for state aid.

The penalty for noncompliance with the minimum salary requirements of Section 163.172, RSMo, is established in Section 163.021.3, RSMo. The statutory penalty for noncompliance is a reduction of the Basic Formula to the 1993-94 amount per eligible pupil, which would be a severe penalty for most districts. Therefore, it is important that each district ensures compliance with the minimum salary requirements. Questions on specific situations may be directed to the School Finance staff at (573) 751-0357.

Remediation Attendance Hours Outside the Traditional School Day

Section 167.640, RSMo, discusses student promotion and remediation.

Section 167.640.1, RSMo, states:

“School districts may adopt a policy with regard to student promotion which may require remediation as a condition of promotion to the next grade level for any student identified by the district as failing to master skills and competencies established for that particular grade level by the district board of education.”

Section 167.640.3, RSMo, states:

“School districts providing remediation pursuant to this section outside of the traditional school day may count extra hours of instruction in the calculation of average daily attendance as defined in section 163.011, RSMo.”

The question “*what attendance hours count toward the inclusion of additional attendance hours?*” has been asked numerous times. The previously quoted section of the law states that the additional attendance hours outside the traditional school day are for those students requiring remediation as a condition for promotion to the next grade level based on the district developed policy to identify such students. While a district may have had an after-school tutoring program in place for several years to meet the varying needs of students, that program may not correspond to the remedial program based on district policy as required in Section 167.640.1, RSMo. After-school programs not specifically addressing remediation as a condition for promotion should not be recorded on Screen 14/14A as Remedial Hours. Remediation outside the regular school day for Step 1 students can also be counted for additional attendance hours.

If your district is providing remediation during the 2003-04 year as described in Section 167.640, RSMo according to the district’s policy, the attendance hours of those students in such instruction outside the normal school day must be recorded separately from the students’ normal school day attendance. These attendance hours will be reported in the June Core Data cycle as REMEDIAL HOURS on Screens 14 and 14A.

In addition, Section 167.340.2, RSMo, states:

“Beginning July 1, 2000, if a school district provides reading improvement instruction for students in kindergarten through third grade who do not meet the district’s objectives for reading as demonstrated by performance on the district’s chosen methods of reading assessment, such students who receive reading improvement instruction pursuant to this subsection may be counted for additional average daily attendance for state school aid during their reading improvement instruction time if such time falls outside normal school hours.”

If your district provides reading improvement instruction for students in grades kindergarten through three, the attendance hours of those students in such instruction outside the normal school day must be recorded separately from the students’ normal school day attendance. Guidelines for this program have been developed by the Division of Instruction.

SCHOOL TRANSPORTATION

5 CSR 30-261.010 Requirements for the Operation of School Buses Revised

The Order of Rulemaking to amend 5 CSR 30-261.010 Requirements for the Operation of School Buses has been finalized by the State Board of Education at the September State Board of Education meeting.

This amendment eliminates the collection of the School Bus Accident Report (3-260.011) by DESE. The Missouri State Highway Patrol collects school bus accident information and will share this information with DESE. In addition, ridership lists, ineligible and eligible miles, and restrictions on blocking of aisles were clarified. The amendment also clarified the present requirement requiring buses to be visible during loading and unloading.

DESE Homepage Address: <http://dese.mo.gov>